

**THE OFFICE OF REGULATORY STAFF  
SURREBUTTAL TESTIMONY AND  
EXHIBITS  
OF  
Paul B. Townes**



**DOCKET NO. 2007-286-W/S  
APPLICATION OF  
UTILITIES SERVICES OF SOUTH CAROLINA, INC.  
FOR ADJUSTMENT OF RATES AND CHARGES**

---

**SURREBUTTAL TESTIMONY OF PAUL B. TOWNES**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2007-286-W/S**

**IN RE: UTILITIES SERVICES OF SOUTH CAROLINA, INC. ("USSC")**

**Q. ARE YOU THE SAME PAUL B. TOWNES THAT PREFILED DIRECT  
TESTIMONY IN THIS CASE?**

A. Yes, I am.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

A. The purpose of my surrebuttal testimony is to respond to an issue raised in Ms. Georgiev's rebuttal testimony. Ms. Georgiev states that the Company incurred an additional \$70,218 in costs for pro forma projects in service as of October 31, 2007. Based on our examination of the documentation provided and our inquiries of Company personnel as to the status of the projects, \$32,645 was verified as used and useful and is included in rate base. I agree with Ms. Georgiev that other adjustments will be required as a result of this change. Surrebuttal Exhibits PBT-1 through PBT-8, attached, reflect this addition to rate base and the changes to other proposed adjustments resulting from the addition.

**Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

A. Yes. USSC's rebuttal discussion about the Service Revenue will be addressed by the ORS Witness Mr. Morgan in his surrebuttal testimony.

---

**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, SC 29201**

---

1    **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

2    **A.    Yes, it does.**

**Utilities Services of South Carolina, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended December 31, 2006**  
**Combined Operations**  
**Docket No. 2007-286-W/S**

<u>Description</u>	(1) Per Company Books \$	(2) ORS Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Company's Proposed Increase \$	(5) After Company's Proposed Increase \$
<b><u>Operating Revenues</u></b>					
Service Revenue - Water	2,627,723	166,160 (A)	2,793,883	1,376,368 (O)	4,170,251
Service Revenue - Sewer	173,215	13,537 (A)	186,752	21,296 (O)	208,048
Miscellaneous Revenues	77,521	793 (B)	78,314	6,170 (P)	84,484
Uncollectible Accounts	(30,290)	(1,943) (C)	(32,233)	(15,115) (Q)	(47,348)
<b><u>Total Operating Revenues</u></b>	<b><u>2,848,169</u></b>	<b><u>178,547</u></b>	<b><u>3,026,716</u></b>	<b><u>1,388,719</u></b>	<b><u>4,415,435</u></b>
<b><u>Operating Expenses</u></b>					
Operating & Maintenance Expenses	1,325,622	26,085 (D)	1,351,707	0	1,351,707
General & Administrative Expenses	796,149	(85,154) (E)	710,995	0	710,995
Depreciation & Amortization Expenses	286,057	40,597 (F)	326,654	0	326,654
Taxes Other Than Income	427,337	8,368 (G)	435,705	14,145 (R)	449,850
Income Taxes	(141,914)	79,445 (H)	(62,469)	525,775 (S)	463,306
Interest on Customer Deposits	0	3,983 (I)	3,983	0	3,983
<b><u>Total Operating Expenses</u></b>	<b><u>2,693,251</u></b>	<b><u>73,324</u></b>	<b><u>2,766,575</u></b>	<b><u>539,920</u></b>	<b><u>3,306,495</u></b>
<b><u>Total Operating Income</u></b>	<b><u>154,918</u></b>	<b><u>105,223</u></b>	<b><u>260,141</u></b>	<b><u>848,799</u></b>	<b><u>1,108,940</u></b>
Customer Growth (Note)	0	732	732	2,708	3,440
<b><u>Net Income for Return</u></b>	<b><u>154,918</u></b>	<b><u>105,955</u></b>	<b><u>260,873</u></b>	<b><u>851,507</u></b>	<b><u>1,112,380</u></b>
<b><u>Original Cost Rate Base</u></b>					
Gross Plant in Service	11,134,107	197,371 (J)	11,331,478	0	11,331,478
Accumulated Depreciation	(1,934,313)	456,693 (K)	(1,477,620)	0	(1,477,620)
Net Plant in Service	9,199,794	654,064	9,853,858	0	9,853,858
Cash Working Capital	265,221	(7,383) (L)	257,838	0	257,838
Accumulated Deferred Income Taxes	(705,114)	0	(705,114)	0	(705,114)
Contributions in Aid of Construction	(107,639)	0	(107,639)	0	(107,639)
Plant Acquisition Adjustment	1,200,820	(1,200,820) (M)	0	0	0
Deferred Maintenance	0	(28,218) (N)	(28,218)	0	(28,218)
Customer Deposits	(128,909)	0	(128,909)	0	(128,909)
<b><u>Total Rate Base</u></b>	<b><u>9,724,173</u></b>	<b><u>(582,357)</u></b>	<b><u>9,141,816</u></b>	<b><u>0</u></b>	<b><u>9,141,816</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>1.59%</u></b>		<b><u>2.85%</u></b>		<b><u>12.17%</u></b>
<b><u>Operating Margin</u></b>	<b><u>-9.82%</u></b>		<b><u>-3.31%</u></b>		<b><u>17.02%</u></b>
<b><u>Interest Expense</u></b>	<b><u>434,735</u></b>		<b><u>360,990</u></b>		<b><u>360,990</u></b>

Note - Customer Growth is for Water Operations only.

**Utilities Services of South Carolina, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended December 31, 2006**  
**Water Operations**  
**Docket No. 2007-286-W/S**

<u>Description</u>	(1) <u>Per</u> <u>Company</u> <u>Books</u> <u>\$</u>	(2) <u>ORS</u> <u>Accounting</u> <u>&amp; Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting</u> <u>&amp; Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>	(5) <u>After</u> <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>
<b><u>Operating Revenues</u></b>					
Service Revenue - Water	2,627,723	166,160 (A)	2,793,883	1,376,368 (O)	4,170,251
Miscellaneous Revenues	49,991	514 (B)	50,505	3,979 (P)	54,484
Uncollectible Accounts	(28,506)	(1,466) (C)	(29,972)	(14,850) (Q)	(44,822)
<b><u>Total Operating Revenues</u></b>	<u>2,649,208</u>	<u>165,208</u>	<u>2,814,416</u>	<u>1,365,497</u>	<u>4,179,913</u>
<b><u>Operating Expenses</u></b>					
Operating & Maintenance Expenses	1,233,874	21,148 (D)	1,255,022	0	1,255,022
General & Administrative Expenses	754,749	(80,726) (E)	674,023	0	674,023
Depreciation & Amortization Expenses	276,016	42,392 (F)	318,408	0	318,408
Taxes Other Than Income	404,849	7,893 (G)	412,742	13,908 (R)	426,650
Income Taxes	(133,556)	58,519 (H)	(75,037)	516,983 (S)	441,946
Interest on Customer Deposits	0	3,776 (I)	3,776	0	3,776
<b><u>Total Operating Expenses</u></b>	<u>2,535,932</u>	<u>53,002</u>	<u>2,588,934</u>	<u>530,891</u>	<u>3,119,825</u>
<b><u>Total Operating Income</u></b>	<u>113,276</u>	<u>112,206</u>	<u>225,482</u>	<u>834,606</u>	<u>1,060,088</u>
Customer Growth (Note)	0	732	732	2,708	3,440
<b><u>Net Income for Return</u></b>	<u>113,276</u>	<u>112,938</u>	<u>226,214</u>	<u>837,314</u>	<u>1,063,528</u>
<b><u>Original Cost Rate Base</u></b>					
Gross Plant in Service	10,778,046	124,831 (J)	10,902,877	0	10,902,877
Accumulated Depreciation	(1,883,784)	436,579 (K)	(1,447,205)	0	(1,447,205)
Net Plant in Service	8,894,262	561,410	9,455,672	0	9,455,672
Cash Working Capital	248,578	(7,447) (L)	241,131	0	241,131
Accumulated Deferred Income Taxes	(667,586)	0	(667,586)	0	(667,586)
Contributions in Aid of Construction	(107,639)	0	(107,639)	0	(107,639)
Plant Acquisition Adjustment	1,200,820	(1,200,820) (M)	0	0	0
Deferred Maintenance	0	(21,477) (N)	(21,477)	0	(21,477)
Customer Deposits	(122,206)	0	(122,206)	0	(122,206)
<b><u>Total Rate Base</u></b>	<u>9,446,229</u>	<u>(668,334)</u>	<u>8,777,895</u>	<u>0</u>	<u>8,777,895</u>
<b><u>Return on Rate Base</u></b>	<u>1.20%</u>		<u>2.58%</u>		<u>12.12%</u>

Note - Customer Growth is for Water Operations only.

**Utilities Services of South Carolina, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended December 31, 2006**  
**Sewer Operations**  
**Docket No. 2007-286-W/S**

<u>Description</u>	(1) <u>Per</u> <u>Company</u> <u>Books</u> <u>\$</u>	(2) <u>ORS</u> <u>Accounting</u> <u>&amp; Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting</u> <u>&amp; Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>	(5) <u>After</u> <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>
<b><u>Operating Revenues</u></b>					
Service Revenue - Sewer	173,215	13,537 (A)	186,752	21,296 (O)	208,048
Miscellaneous Revenues	27,530	279 (B)	27,809	2,191 (P)	30,000
Uncollectible Accounts	(1,784)	(477) (C)	(2,261)	(265) (Q)	(2,526)
<b><u>Total Operating Revenues</u></b>	<u>198,961</u>	<u>13,339</u>	<u>212,300</u>	<u>23,222</u>	<u>235,522</u>
<b><u>Operating Expenses:</u></b>					
Operating & Maintenance Expenses	91,748	4,937 (D)	96,685	0	96,685
General & Administrative Expenses	41,400	(4,428) (E)	36,972	0	36,972
Depreciation & Amortization Expenses	10,041	(1,795) (F)	8,246	0	8,246
Taxes Other Than Income	22,488	475 (G)	22,963	237 (R)	23,200
Income Taxes	(8,358)	20,926 (H)	12,568	8,792 (S)	21,360
Interest on Customer Deposits	0	207 (I)	207	0	207
<b><u>Total Operating Expenses</u></b>	<u>157,319</u>	<u>20,322</u>	<u>177,641</u>	<u>9,029</u>	<u>186,670</u>
<b><u>Total Operating Income</u></b>	<u>41,642</u>	<u>(6,983)</u>	<u>34,659</u>	<u>14,193</u>	<u>48,852</u>
Customer Growth	0	0	0	0	0
<b><u>Net Income for Return</u></b>	<u>41,642</u>	<u>(6,983)</u>	<u>34,659</u>	<u>14,193</u>	<u>48,852</u>
<b><u>Original Cost Rate Base</u></b>					
Gross Plant in Service	356,061	72,540 (J)	428,601	0	428,601
Accumulated Depreciation	(50,529)	20,114 (K)	(30,415)	0	(30,415)
Net Plant in Service	305,532	92,654	398,186	0	398,186
Cash Working Capital	16,643	64 (L)	16,707	0	16,707
Accumulated Deferred Income Taxes	(37,528)	0	(37,528)	0	(37,528)
Contributions in Aid of Construction	0	0	0	0	0
Plant Acquisition Adjustment	0	0 (M)	0	0	0
Deferred Maintenance	0	(6,741) (N)	(6,741)	0	(6,741)
Customer Deposits	(6,703)	0	(6,703)	0	(6,703)
<b><u>Total Rate Base</u></b>	<u>277,944</u>	<u>85,977</u>	<u>363,921</u>	<u>0</u>	<u>363,921</u>
<b><u>Return on Rate Base</u></b>	<u>14.98%</u>		<u>9.52%</u>		<u>13.42%</u>

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b>(A) Service Revenues</b>			
1. ORS and USSC propose to adjust operating revenues to reflect current customers at current rates.			
Per ORS	179,697	166,160	13,537
Per USSC	38,779	35,794	2,985
<b>Total Service Revenues - Per ORS</b>	<b>179,697</b>	<b>166,160</b>	<b>13,537</b>
<b>(B) Miscellaneous Revenues</b>			
2. ORS proposes to adjust miscellaneous revenues to reflect current customers at current rates.			
Per ORS	793	514	279
Per USSC	0	0	0
<b>Total Miscellaneous Revenues - Per ORS</b>	<b>793</b>	<b>514</b>	<b>279</b>
<b>(C) Uncollectible Accounts</b>			
3. ORS and USSC propose to adjust uncollectible expense based on the test year percentage of uncollectible accounts applied to the proforma proposed revenues.			
Per ORS	(1,943)	(1,466)	(477)
Per USSC	(419)	(388)	(31)
<b>Total Uncollectible Accounts - Per ORS</b>	<b>(1,943)</b>	<b>(1,466)</b>	<b>(477)</b>
<b>(D) Operating and Maintenance Expenses</b>			
4. ORS and USSC propose to annualize operators' salaries. ORS annualized salaries using the actual wage increase as of 7/1/2007, excluding bonuses.			
Per ORS	124,391	117,923	6,468
Per USSC	154,024	146,011	8,013

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
5. ORS proposes to remove purchased water costs revenue and record in the restated revenue adjustment. USSC proposes to net the water expense by the recovered revenue. ORS proposes to cap purchases by any water loss more than 10% at any subdivision.			
Per ORS	(85,049)	(85,049)	0
Per USSC	(67,429)	(67,429)	0
6. USSC proposes to increase Maintenance and Repair expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. Deferred maintenance has been removed as proposed by the company and accepted by ORS. ORS also proposes to remove \$2,215 related to well abandonment charges that should have been capitalized.			
Per ORS	(11,920)	(11,050)	(870)
Per USSC	2,113	2,983	(870)
7. USSC proposes to increase Maintenance Testing expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	1,342	1,106	236
8. USSC proposes to increase Meter Reading expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	1,031	1,031	0



**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
9. USSC proposes to increase Chemicals expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	3,803	3,605	198
10. USSC proposes to increase transportation expense for one new employee. ORS does not propose to accept this adjustment due to existing vehicle assets.			
Per ORS	0	0	0
Per USSC	6,440	6,105	335
11. ORS and USSC propose to increase Operating Expense Charged to Plant to reflect the increase in salaries, taxes, and benefits for operators. ORS and USSC allocated this amount based on USSC's capitalization ratio of 20.37%.			
Per ORS	(2,556)	(2,423)	(133)
Per USSC	(9,341)	(8,855)	(486)
12. ORS proposes to adjust Operating and Maintenance expenses related to USSC's transfer of four subdivisions.			
Per ORS	(10,167)	(9,639)	(528)
Per USSC	0	0	0
13. ORS proposes to eliminate the over collection of the DHEC Safe Water Testing Fee.			
Per ORS	11,386	11,386	0
Per USSC	0	0	0
<b><u>Total Operating and Maintenance Expenses - Per ORS</u></b>	<b><u>26,085</u></b>	<b><u>21,148</u></b>	<b><u>4,937</u></b>

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>(E) General and Administrative Expenses</u></b>			
14. ORS and USSC propose to annualize office salaries. ORS annualized salaries using the actual wage increase as of 7/1/2007, excluding bonuses.			
Per ORS	5,654	5,360	294
Per USSC	17,229	16,332	897
15. USSC proposes to increase Office Supplies and Other Office expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	7,504	7,114	390
16. ORS and USSC propose to amortize current rate case expenses. ORS proposes to amortize rate case expenses as of November 13, 2007 of \$104,318 over a two-year period for an adjustment of \$52,159.			
Per ORS	52,159	49,447	2,712
Per USSC	177,121	167,911	9,210
17. ORS and USSC propose to annualize Pension and Other Benefits expense associated with the wage increase.			
Per ORS	11,818	11,203	615
Per USSC	12,999	12,322	677
18. USSC proposes to increase Rent expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions. ORS adjusted to the company's current lease payments.			
Per ORS	(1,850)	(1,754)	(96)
Per USSC	509	483	26

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
19. USSC proposes to increase Office Utilities expense by using a CPI of 4.4%. ORS does not propose to use this method to adjust expenses as these adjustments would be based upon economic forecasts rather than known and measurable transactions.			
Per ORS	0	0	0
Per USSC	1,840	1,744	96
20. USSC and ORS propose to make a correction of an allocation adjustment.			
Per ORS	(149,318)	(141,553)	(7,765)
Per USSC	(149,318)	(141,553)	(7,765)
21. USSC and ORS propose to remove fines and penalties.			
Per ORS	(3,617)	(3,429)	(188)
Per USSC	(3,617)	(3,429)	(188)
<b><u>Total General and Administrative Expenses-Per ORS</u></b>	<b><u>(85,154)</u></b>	<b><u>(80,726)</u></b>	<b><u>(4,428)</u></b>

**(F) Depreciation and Amortization Expenses**

22. ORS and USSC propose to annualize Depreciation expense using the adjusted plant in service. See Audit Exhibit PBT-5 for the details of the adjustment.			
Per ORS	(55,087)	(53,292)	(1,795)
Per USSC	3,449	2,631	818
23. ORS and USSC propose to adjust the Amortization of Contributions In Aid of Construction as of December 31, 2004.			
Per ORS	(780)	(780)	0
Per USSC	(780)	(780)	0

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
24. ORS and USSC propose to adjust for the amortization of the Plant Acquisition Adjustment. ORS's Plant Acquisition Adjustment was computed using ORS's restated plant and accumulated depreciation at acquisition.			
Per ORS	96,464	96,464	0
Per USSC	96,464	96,464	0
<b><u>Total Depreciation and Amortization Expenses - Per ORS</u></b>	<b><u>40,597</u></b>	<b><u>42,392</u></b>	<b><u>(1,795)</u></b>

**(G) Taxes Other Than Income**

25. ORS adjusted payroll taxes for the annualized payroll adjustment based on the wage increase as of 7/1/2007.

Per ORS	6,549	6,210	339
Per USSC	10,543	9,994	549

26. ORS proposes to adjust utility/commission taxes and gross receipts taxes for the effect of the accounting and pro forma adjustments.

Per ORS	1,819	1,683	136
Per USSC	442	408	34

<b><u>Total Taxes Other Than Income - Per ORS</u></b>	<b><u>8,368</u></b>	<b><u>7,893</u></b>	<b><u>475</u></b>
---	---------------------	---------------------	-------------------

**(H) Income Taxes - After Accounting & Pro Forma Adjustments**

27. ORS and USSC propose to adjust income taxes for the effect of the accounting and pro forma adjustments using a state tax rate of 5% and a federal tax rate of 35%.

Per ORS	79,445	58,519	20,926
Per USSC	(94,624)	(106,410)	11,786
<b><u>Total Income Taxes - After Accounting &amp; Pro Forma Adjustments - Per ORS</u></b>	<b><u>79,445</u></b>	<b><u>58,519</u></b>	<b><u>20,926</u></b>

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>(I) Interest on Customer Deposits</u></b>			
28. ORS proposes to include annualized interest on customer deposits using the test year ending balance and the most recently PSC approved interest rate of 3.50%.			
Per ORS	3,983	3,776	207
Per USSC	0	0	0
<b><u>Total Interest on Customer Deposits - Per ORS</u></b>	<b><u>3,983</u></b>	<b><u>3,776</u></b>	<b><u>207</u></b>
<b><u>(J) Gross Plant In Service</u></b>			
29. ORS and USSC propose to include plant for construction work orders completed as of October 2007.			
Per ORS	873,741	784,340	89,401
Per USSC	1,259,722	1,153,569	106,153
30. ORS and USSC propose to include routine plant additions and capitalized time after the test year up to September 2007.			
Per ORS	477,882	442,497	35,385
Per USSC	487,949	468,111	19,838
31. ORS and USSC propose to adjust for plant retirements associated with the completed work orders as of October 2007. Adjustments to Accumulated Depreciation are reflected in Adjustment No. 35.			
Per ORS	(137,713)	(137,713)	0
Per USSC	(192,667)	(192,667)	0
32. ORS and USSC propose to adjust the allocation of vehicles included in rate base.			
Per ORS	(524,431)	(497,161)	(27,270)
Per USSC	0	0	0

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
33. ORS and USSC propose to remove an elevated storage tank which is no longer used by the Company as ordered in Docket No. 2005-217-WS. ORS removes book value of \$102,188 for plant.			
Per ORS	(102,188)	(102,188)	0
Per USSC	(132,242)	(132,242)	0
34. ORS proposes an extraordinary retirement of wells, structures, and storage tanks as ordered in Docket No. 2005-217-WS. ORS removes plant book value of \$30,054. ORS also removes wells, structures, and storage tanks that USSC has extraordinarily retired for \$143,199.			
Per ORS	(173,253)	(173,253)	0
Per USSC	(126,989)	(126,989)	0
35. ORS proposes to remove plant costs associated with Arrowhead Shores and Lakewood Estates which were transferred per Order No. 2007-580.			
Per ORS	(186,387)	(186,828)	441
Per USSC	0	0	0
36. ORS proposes to remove plant costs associated with Pleasant Hill which was transferred per Order No. 2006-350 and South Congaree which was transferred per Order No. 2002-567.			
Per ORS	(4,863)	(4,863)	0
Per USSC	0	0	0
37. ORS and USSC propose to remove organizational costs as ordered in the last rate case.			
Per ORS	(25,417)	0	(25,417)
Per USSC	(25,417)	0	(25,417)
<b>Total Gross Plant In Service - Per ORS</b>	<b>197,371</b>	<b>124,831</b>	<b>72,540</b>

**Utilities Services of South Carolina, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended December 31, 2006  
Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>(K) Accumulated Depreciation</u></b>			
38. ORS and USSC propose to adjust accumulated depreciation for the additional plant and capitalized time.			
Per ORS	55,087	53,292	1,795
Per USSC	(31,502)	(29,338)	(2,164)
39. ORS and USSC propose to adjust accumulated depreciation for the excess vehicle allocation.			
Per ORS	352,284	333,965	18,319
Per USSC	217,143	205,852	11,291
40. ORS and USSC propose to adjust accumulated depreciation for prior commission orders.			
Per ORS	39,480	39,480	0
Per USSC	46,229	46,124	105
41. ORS and USSC propose to adjust accumulated depreciation for pro forma retirements. ORS proposes using the ratio of accumulated depreciation to water and sewer plant at 12/31/06. USSC proposes 100% of plant retirement.			
Per ORS	17,903	17,903	0
Per USSC	192,667	192,667	0
42. ORS proposes to adjust accumulated depreciation for the extraordinary retirement of wells, tanks, and other structures.			
Per ORS	22,454	22,454	0
Per USSC	0	0	0
43. ORS proposes to adjust accumulated depreciation for the transfer of four subdivisions.			
Per ORS	(30,515)	(30,515)	0
Per USSC	0	0	0
<b><u>Total Accumulated Depreciation - Per ORS</u></b>	<b><u>456,693</u></b>	<b><u>436,579</u></b>	<b><u>20,114</u></b>

**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>(L) Cash Working Capital</u></b>			
44. ORS and USSC propose to adjust Cash Working Capital based on pro forma expenses.			
Per ORS	(7,383)	(7,447)	64
Per USSC	19,532	18,185	1,347
<b><u>Total Cash Working Capital - Per ORS</u></b>	<b><u>(7,383)</u></b>	<b><u>(7,447)</u></b>	<b><u>64</u></b>
<b><u>(M) Plant Acquisition Adjustment</u></b>			
45. ORS and USSC propose to remove the unamortized balance of (\$1,200,820) Plant Acquisition Adjustment from rate base as per the order in the prior rate case.			
Per ORS	(1,200,820)	(1,200,820)	0
Per USSC	(1,200,820)	(1,200,820)	0
<b><u>Total Plant Acquisition Adjustment - Per ORS</u></b>	<b><u>(1,200,820)</u></b>	<b><u>(1,200,820)</u></b>	<b><u>0</u></b>
<b><u>(N) Deferred Maintenance</u></b>			
46. ORS and USSC propose to remove deferred maintenance from rate base.			
Per ORS	(28,218)	(21,477)	(6,741)
Per USSC	(28,218)	(21,477)	(6,741)
<b><u>Total Deferred Maintenance - Per ORS</u></b>	<b><u>(28,218)</u></b>	<b><u>(21,477)</u></b>	<b><u>(6,741)</u></b>
<b><u>COMPANY'S PROPOSED INCREASE AS COMPUTED BY ORS WATER/WASTEWATER DEPARTMENT</u></b>			
<b><u>(O) Service Revenues</u></b>			
47. USSC proposes an increase in service revenues.			
Per ORS	1,397,664	1,376,368	21,296
Per USSC	1,413,346	1,393,267	20,079
<b><u>Total Service Revenues</u></b>	<b><u>1,397,664</u></b>	<b><u>1,376,368</u></b>	<b><u>21,296</u></b>



**Utilities Services of South Carolina, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>(P) Miscellaneous Revenues</u></b>			
48. ORS proposes to adjust miscellaneous revenues to reflect current customers at current rates.			
Per ORS	6,170	3,979	2,191
Per USSC	0	0	0
<b><u>Total Miscellaneous Revenues</u></b>	<b><u>6,170</u></b>	<b><u>3,979</u></b>	<b><u>2,191</u></b>
<b><u>(Q) Uncollectible Accounts</u></b>			
49. ORS and USSC propose to adjust Uncollectible Accounts expense for the proposed revenue increase.			
Per ORS	(15,115)	(14,850)	(265)
Per USSC	(15,321)	(15,114)	(207)
<b><u>Total Uncollectible Accounts</u></b>	<b><u>(15,115)</u></b>	<b><u>(14,850)</u></b>	<b><u>(265)</u></b>
<b><u>(R) Taxes Other Than Income</u></b>			
50. ORS and USSC propose to adjust utility/commission tax and gross receipts taxes for the net proposed revenue.			
Per ORS	14,145	13,908	237
Per USSC	16,112	15,883	229
<b><u>Total Taxes Other Than Income</u></b>	<b><u>14,145</u></b>	<b><u>13,908</u></b>	<b><u>237</u></b>
<b><u>(S) Income Taxes</u></b>			
51. ORS and USSC propose to adjust income taxes for the proposed increase using a state tax rate of 5% and a federal tax rate of 35%.			
Per ORS	525,775	516,983	8,792
Per USSC	528,581	521,068	7,513
<b><u>Total Income Taxes</u></b>	<b><u>525,775</u></b>	<b><u>516,983</u></b>	<b><u>8,792</u></b>

Utilities Services of South Carolina, Inc.  
Depreciation and Amortization Adjustment  
Test Year Ended December 31, 2006  
Docket No. 2007-286-W/S

	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b>Gross Plant</b>			
Gross Plant at 12-31-2006	11,134,107	10,778,046	356,061
Add:			
General Ledger Additions and Capitalized Time After Test Year	477,882	442,497	35,385
Pro Forma Projects	873,741	784,340	89,401
Total Gross Plant In Service	12,485,730	12,004,883	480,847
Less:			
Land	(239,058)	(239,058)	-
Organizational Costs	(200,386)	(174,969)	(25,417)
Pro forma project retirements	(137,713)	(137,713)	-
Elevated Storage Tank	(102,188)	(102,188)	-
Extraordinary Retirement (Prior and Current Rate Cases)	(173,253)	(173,253)	-
Computers	(156,409)	(148,276)	(8,133)
Vehicles	(708,990)	(672,123)	(36,867)
Lakewood and Arrowhead Transfer	(186,387)	(186,828)	441
South Congaree and Pleasant Hill Transfer	(4,863)	(4,863)	-
Net Plant	10,576,483	10,165,612	410,871
Plant Depreciation @ 1.5% (66.67 years)	158,647	152,484	6,163
Computers	156,409	148,276	8,133
Less: Fully Depreciated Computers	(156,409)	(148,276)	(8,133)
Net Computers	-	-	-
Computer Depreciation @ 25% (4 years)	-	-	-
Vehicles (ORS Restated Amount)	184,559	174,962	9,597
Less: Fully Depreciated Vehicles	(20,175)	(19,126)	(1,049)
Net Vehicles	164,384	155,836	8,548
Vehicle Depreciation @ 25% (4 years)	41,096	38,959	2,137
Extraordinary Depreciation for Test Year	12,075	12,075	-
Extraordinary Depreciation from Prior Rate Case	2,168	2,168	-
Total Depreciation	213,986	205,686	8,300
Less: Per Book Depreciation	(269,073)	(258,978)	(10,095)
<b>ORS Depreciation Adjustment</b>	<b>(55,087)</b>	<b>(53,292)</b>	<b>(1,795)</b>
<b>Contributions in Aid of Construction</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gross CIAC at 12-31-2006	109,542	109,542	-
CIAC Amortization @ 1.5% (66.67 years)	(1,643)	(1,643)	-
Less: Per Book Amortization of CIAC	(863)	(863)	-
ORS CIAC Amortization Adjustment	(780)	(780)	-
<b>Purchase Acquisition Adjustment</b>			
Gross PAA per 2005-217-W/S	1,159,372	1,159,372	-
PAA Amortization @ 10%	115,937	115,937	-
Less: Per Book Amortization of PAA	19,473	19,473	-
ORS PAA Amortization Adjustment	96,464	96,464	-
ORS Amortization Adjustment	95,684	95,684	-
<b>Total Depreciation and Amortization</b>	<b>40,597</b>	<b>42,392</b>	<b>(1,795)</b>

**Utilities Services of South Carolina, Inc.**  
**Computation of Income Taxes**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

	<b>After ORS Accounting and Pro Forma Adjustments</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating Revenue	3,026,716	2,814,416	212,300
Less: Operating Expenses	<u>(2,829,044)</u>	<u>(2,663,971)</u>	<u>(165,073)</u>
Net Operating Income Before Taxes	197,672	150,445	47,227
Less: Annualized Interest Expense	<u>(360,990)</u>	<u>(346,620)</u>	<u>(14,370)</u>
Taxable Income - State	(163,318)	(196,175)	32,857
State Income Taxes @ 5%	<u>5%</u>	<u>5%</u>	<u>5%</u>
State Income Taxes	<u>(8,166)</u>	<u>(9,809)</u>	<u>1,643</u>
Taxable Income - Federal	(155,152)	(186,366)	31,214
Federal Tax Rate @ 35%	<u>35%</u>	<u>35%</u>	<u>35%</u>
Total Federal Income Taxes	<u>(54,303)</u>	<u>(65,228)</u>	<u>10,925</u>
Total Federal and State Income Taxes	(62,469)	(75,037)	12,568
Less: Income Taxes Per Book	<u>(141,914)</u>	<u>(133,556)</u>	<u>(8,358)</u>
Adjustment	<u><u>79,445</u></u>	<u><u>58,519</u></u>	<u><u>20,926</u></u>

	<b>After Company's Proposed Increase</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating Revenue	4,415,435	4,179,913	235,522
Less: Operating Expenses	<u>(2,843,189)</u>	<u>(2,677,879)</u>	<u>(165,310)</u>
Net Operating Income Before Taxes	1,572,246	1,502,034	70,212
Less: Annualized Interest Expense	<u>(360,990)</u>	<u>(346,620)</u>	<u>(14,370)</u>
Taxable Income - State	1,211,256	1,155,414	55,842
State Income Taxes @ 5%	<u>60,563</u>	<u>57,771</u>	<u>2,792</u>
Taxable Income - Federal	1,150,693	1,097,643	53,050
Federal Income Taxes - @ 35%	<u>402,743</u>	<u>384,175</u>	<u>18,568</u>
Total State and Federal Income Taxes	463,306	441,946	21,360
Less: Income Taxes As Adjusted	<u>(62,469)</u>	<u>(75,037)</u>	<u>12,568</u>
Adjustment	<u><u>525,775</u></u>	<u><u>516,983</u></u>	<u><u>8,792</u></u>

**Utilities Services of South Carolina, Inc.**  
**Cash Working Capital Allowance**  
**For the Test Year Ended December 31, 2006**  
**Docket No. 2007-286-W/S**

**After ORS Accounting & Pro Forma Adjustments**

	<u><b>Combined Operations</b></u>	<u><b>Water Operations</b></u>	<u><b>Sewer Operations</b></u>
	\$	\$	\$
Operating and Maintenance Expenses	1,351,707	1,255,022	96,685
General and Administrative Expenses	<u>710,995</u>	<u>674,023</u>	<u>36,972</u>
Total Expenses for Computation	2,062,702	1,929,045	133,657
45-Day Allowance (1/8 Rate)	<u>12.5%</u>	<u>12.5%</u>	<u>12.5%</u>
Computed Cash Working Capital	257,838	241,131	16,707
Cash Working Capital - Per Books	<u>265,221</u>	<u>248,578</u>	<u>16,643</u>
<b>Cash Working Capital Adjustment - ORS</b>	<u><u><b>(7,383)</b></u></u>	<u><u><b>(7,447)</b></u></u>	<u><u><b>64</b></u></u>
Cash Working Capital Adjustment - USSC	<u><u>(10,301)</u></u>	<u><u>(12,059)</u></u>	<u><u>1,758</u></u>

Utilities Services of South Carolina, Inc.  
Return On Common Equity  
Capital Structure at December 31, 2006  
Docket No. 2007-286-W/S

Description	Capital Structure	<u>Combined</u>					<u>After Company's Proposed Increase</u>			
		<u>After ORS Accounting &amp; Pro Forma Adjustments</u>					<u>Income</u>			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
		%	\$	%	%	\$	\$	%	%	\$
Long-Term Debt	180,000,000	59.83%	5,469,549	6.60%	3.95%	360,990	5,469,549	6.60%	3.95%	360,990
Common Equity	120,831,226	40.17%	3,672,267	-2.73%	-1.10%	(100,117)	3,672,267	20.46%	8.22%	751,390
Totals	300,831,226	100.00%	9,141,816		2.85%	260,873	9,141,816		12.17%	1,112,380

Description	Capital Structure	<u>Water</u>					<u>After Company's Proposed Increase</u>			
		<u>After ORS Accounting &amp; Pro Forma Adjustments</u>					<u>Income</u>			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
		%	\$	%	%	\$	\$	%	%	\$
Long-Term Debt	180,000,000	59.83%	5,251,815	6.60%	3.95%	346,620	5,251,815	6.60%	3.95%	346,620
Common Equity	120,831,226	40.17%	3,526,080	-3.41%	-1.37%	(120,406)	3,526,080	20.33%	8.17%	716,908
Totals	300,831,226	100.00%	8,777,895		2.58%	226,214	8,777,895		12.12%	1,063,528

Description	Capital Structure	<u>Sewer</u>					<u>After Company's Proposed Increase</u>			
		<u>After ORS Accounting &amp; Pro Forma Adjustments</u>					<u>Income</u>			
		Ratio	Rate	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
		%	\$	%	%	\$	\$	%	%	\$
Long-Term Debt	180,000,000	59.83%	217,734	6.60%	3.95%	14,370	217,734	6.60%	3.95%	14,370
Common Equity	120,831,226	40.17%	146,187	13.88%	5.57%	20,289	146,187	23.59%	9.47%	34,482
Totals	300,831,226	100.00%	363,921		9.52%	34,659	363,921		13.42%	48,852

Used Capital Structure of Utilities, Inc. and Subsidiaries @ 12-31-2006